

AURELIA MUNICIPAL ELECTRIC UTILITY
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

DECEMBER 31, 2008

AURELIA MUNICIPAL ELECTRIC UTILITY

AURELIA, IOWA

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AURELIA MUNICIPAL ELECTRIC UTILITY

AURELIA, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger Redig	Trustee	January, 2009
Mark Arnold	Trustee	January, 2009
Gordon Grohe	Trustee	January, 2009
Craig Ballantyne	Trustee	January, 2011
Marvin Krause	Trustee	January, 2011

HUNZELMAN, PUTZIER & Co., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Aurelia Municipal Electric Utility
Aurelia, Iowa

We have audited the accompanying balance sheet of Aurelia Municipal Electric Utility, a component unit of City of Aurelia, as of and for the year ended December 31, 2008, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because we were not engaged as auditors until after December 31, 2007, we were not able to satisfy ourselves as to the balances of accounts receivable, inventory, and accounts payable as of that date. Any misstatements of these balances would affect the results of operations and cash flows for the year ended December 31, 2008.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the opening balances of receivables, inventory, and accounts payable, the financial statements referred to above present fairly, in all material respects, the financial position of Aurelia Municipal Electric Utility as of December 31, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

The Utility has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2009 on our consideration of Aurelia Municipal Electric Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read and considered in assessing the results of our audit.

Budgetary comparison information on pages 15 and 16 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

August 19, 2009

Hungelman, Putzier & Co.

AURELIA MUNICIPAL ELECTRIC UTILITY
BALANCE SHEET
DECEMBER 31, 2008

Exhibit A

ASSETS

CAPITAL ASSETS

Electric plant in service	\$ 1,903,165
Less accumulated depreciation and amortization	<u>1,150,594</u>
Total net capital assets	<u>752,571</u>

OTHER ASSETS

Membership	100
Deferred patronage refund receivable	<u>173,106</u>
Total other assets	<u>173,206</u>

CURRENT ASSETS

Cash and cash equivalents	58,454
Temporary cash investments	450,000
Inventories	21,745
Accounts receivable	99,201
Accrued interest receivable	2,289
Prepaid insurance	<u>3,434</u>
Total current assets	<u>635,123</u>

Total assets	<u>\$ 1,560,900</u>
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LIABILITIES AND NET ASSETS

CURRENT AND ACCRUED LIABILITIES

Accounts payable	\$ 37,532
Consumers deposits	3,725
Other current and accrued liabilities	<u>32,932</u>
Total current and accrued liabilities	<u>74,189</u>

NET ASSETS

Invested in capital assets	752,571
Unrestricted	<u>734,140</u>
Total net assets	<u>1,486,711</u>

Total liabilities and net assets	<u>\$ 1,560,900</u>
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The accompanying notes are an integral part of this statement.

AURELIA MUNICIPAL ELECTRIC UTILITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit B

OPERATING REVENUE

Residential energy sales	\$ 329,373
Commercial energy sales	57,970
Other energy sales	177,316
Other operating revenue	<u>3,008</u>
Total operating revenue	<u>567,667</u>

OPERATING EXPENSES

Cost of power	307,402
Depreciation and amortization	48,492
Distribution expenses - operations and maintenance	31,548
Administrative and general expense	178,320
Payment to the City in lieu of property taxes	<u>10,000</u>
Total operating expenses	<u>575,762</u>
Operating loss	<u>(8,095)</u>

NONOPERATING REVENUE

Interest revenue	15,813
Deferred patronage allocations	<u>20,798</u>
Total nonoperating revenue	<u>36,611</u>

Change in net assets	28,516
Net assets, beginning of year	1,708,195
Less: Residual equity transfer to City - Donation	<u>(250,000)</u>
Net assets, end of year	<u>\$ 1,486,711</u>

The accompanying notes are an integral part of this statement.

AURELIA MUNICIPAL ELECTRIC UTILITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 555,891
Cash paid to employees	(91,469)
Cash paid to suppliers	<u>(420,980)</u>
Net cash provided by operating activities	<u>43,442</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Payments to City	<u>(250,000)</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Additions to plant	<u>(20,989)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received	21,826
Investments matured or sold	1,125,000
Purchase of investments	<u>(1,000,000)</u>
Net cash provided by investing activities	<u>146,826</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS

(80,721)

Cash and cash equivalents at beginning of year

139,175

CASH AND CASH EQUIVALENTS AT END OF YEAR

\$ 58,454

RECONCILIATION OF OPERATING LOSS TO CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	<u>\$ (8,095)</u>
Adjustments to reconcile operating loss to cash provided by operations:	
Depreciation and amortization	48,492
Changes in assets and liabilities:	
Increase in accounts receivable	(12,451)
Decrease in prepaid expenses	363
Decrease in inventory	5,454
Increase in accounts payable and other accrued liabilities	<u>9,679</u>
Total adjustments	<u>51,537</u>

Net cash provided by operating activities

\$ 43,442

The accompanying notes are an integral part of this statement.

AURELIA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Aurelia Municipal Electric Utility is a component unit of City of Aurelia. The Mayor appoints the trustees of the Utility subject to approval by the City Council. The City Council also approves the Utility's operating budget.

Aurelia Municipal Electric Utility distributes electric energy to consumers in Aurelia, Iowa. The Utility purchases all its power requirements from Western Iowa Municipal Electric Cooperative Association under a long-term contract.

The Utility's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Reporting Entity

For financial reporting purposes, Aurelia Municipal Electric Utility has included all funds, organizations, agencies, boards, commissions, and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the Utility. Aurelia Municipal Electric Utility has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of Aurelia Municipal Electric Utility are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

AURELIA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Measurement Focus and Basis of Accounting - (Continued)

The Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash, Investments, and Cash Equivalents

Investments are carried at cost which approximates market value. For the purpose of reporting cash flows, cash and cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Electric Plant

Electric plant is stated at cost. Cost of labor, materials, supervision, and other costs incurred in making improvements and replacements to the system, except minor replacements, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining the assets in efficient operating condition are charged to expense.

Provisions for depreciation of distribution plant are computed on a straight-line basis employing a group method. The original costs of assets retired (not constituting the sale of an operating unit or system) together with the costs of removal less salvage are charged to the related accumulated depreciation accounts. In accounting for the sale of operating units or systems, gains or losses are reflected in net revenue.

Provisions for depreciation of general plant are computed on a straight-line basis employing the unit depreciation method. The original cost of property retired is removed from the general plant accounts and the related accumulated depreciation accounts are charged for the depreciation taken to date. Gain or loss is recognized to the extent that the salvage value of the assets retired exceeds or falls short of the remaining book value of the assets retired.

Inventory

Inventories are valued at the lower of average cost or replacement value. Cost is determined on a first-in, first-out method.

Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The Utility's liability for accumulated vacation has been computed based on rates of pay in effect at December 31, 2008.

AURELIA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2008 expenses did not exceed the amount budgeted.

2. PLANT AND DEPRECIATION PROCEDURES

Listed below are the major classes of plant as of December 31, 2008:

	<u>2008</u>
Franchises	\$ 1,298
Land and land rights	8,967
Buildings	49,740
Distribution lines	1,420,504
Substation	266,886
Other equipment	<u>155,770</u>
Total electric plant	<u>\$1,903,165</u>

Provision for depreciation and amortization has been computed at straight-line rates over the estimated useful lives of the property.

3. DEPOSITS

The Utility's deposits in banks at December 31, 2008 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

The Utility had no investments meeting the disclosure requirements of Government Auditing Standards Board Statement Number 3, as amended by Statement 40.

AURELIA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

4. TEMPORARY CASH INVESTMENTS

These funds were deposited as follows as of December 31, 2008:

Certificates of deposit	<u>\$ 450,000</u>
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The certificates of deposit at December 31, 2008 bear interest at 2.00% to 3.30% and mature from February, 2009 to March, 2009.

5. CASH AND CASH EQUIVALENTS

These funds were deposited as follows as of December 31, 2008:

Demand deposits	<u>\$ 58,454</u>
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6. PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% (3.9% through June 30, 2008) of their annual covered salary and the Utility is required to contribute 6.35% (6.05% through June 30, 2008) of annual covered payroll. Contribution requirements are established by State statute. The Utility's contribution to IPERS for the year ended December 31, 2008, was \$6,927, equal to the required contribution for the year.

7. SIGNIFICANT AREA CONCENTRATION OF CREDIT RISK

The Utility extends credit to its customers on terms no more favorable than standard terms of the industry it serves. A substantial portion of the Utility's customers are located in Aurelia, Iowa. The Utility's credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

8. ECONOMIC DEPENDENCY - MAJOR CUSTOMER

Aurelia Municipal Electric Utility sells a substantial portion of its electricity to one customer. During the year ended December 31, 2008, sales to First Cooperative Association as a percentage of operating revenue, were 10.09%.

9. RISK MANAGEMENT

Aurelia Municipal Electric Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

AURELIA MUNICIPAL ELECTRIC UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

10. GUARANTY AGREEMENT

The Utility has agreed to act as guarantor of a \$100,000 loan to Aurelia Golf Club, Inc. from Western Iowa Municipal Electric Cooperative Association. The agreement became effective March 19, 2004. The balance due on this loan at December 31, 2008 is \$51,497.

REQUIRED SUPPLEMENTARY INFORMATION

AURELIA MUNICIPAL ELECTRIC UTILITY
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS – BUDGET AND ACTUAL
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2008

	<u>Actual</u>	<u>Budgeted</u> <u>Amounts</u>	<u>Actual to</u> <u>Budget</u> <u>Variance</u>
Revenues:			
Use of money and property	\$ 15,813	\$ 18,000	\$ (2,187)
Charges for services	567,667	575,000	(7,333)
Miscellaneous	<u>20,798</u>	<u>5,750</u>	<u>15,048</u>
	604,278	598,750	5,528
Expenses	<u>575,762</u>	<u>590,000</u>	<u>(14,238)</u>
Net	28,516	8,750	19,766
Net assets, beginning of year	1,708,195	1,716,394	(8,199)
Residual equity transfer to City – donation	<u>(250,000)</u>	<u>-</u>	<u>(250,000)</u>
Net assets, end of year	<u>\$ 1,486,711</u>	<u>\$ 1,725,144</u>	<u>\$ (238,433)</u>

See accompanying independent auditor's report.

AURELIA MUNICIPAL ELECTRIC UTILITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
DECEMBER 31, 2008

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The Utility's budget was not amended during the year and expenses did not exceed the amount budgeted.

HUNZELMAN, PUTZIER & CO., PLC
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Board of Trustees
Aurelia Municipal Electric Utility
Aurelia, Iowa

The primary purpose of our audit was to formulate an opinion on the financial statements taken as a whole. The additional information presented in the following pages was prepared on the basis of audit procedures applied in our examination of the financial statements. This information, while not necessary for fair presentation of the financial statements is, in our opinion, fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

August 19, 2009

Hunzelman, Putzier & Co.

AURELIA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF MUNICIPAL ELECTRIC PLANT
DECEMBER 31, 2008

Schedule 1

	Utility Plant			Accumulated Depreciation or Amortization					
	Balance January 1, 2008	Additions	Retirements	Balance December 31, 2008	Balance January 1, 2008	Additions	Retirements	Balance December 31, 2008	Rate in Percent
Franchises	\$ 1,298	\$ -	\$ -	\$ 1,298	\$ 1,298	\$ -	\$ -	\$ 1,298	4.00
Land and land rights	8,967	-	-	8,967	-	-	-	-	-
Building	49,740	-	-	49,740	43,078	1,550	-	44,628	5.00
Distribution lines	1,410,557	14,327	4,380	1,420,504	818,112	36,735	2,792	852,055	3.33-12.50
Substation	266,886	-	-	266,886	123,405	4,977	-	128,382	3.33
Other equipment	<u>153,126</u>	<u>9,956</u>	<u>7,312</u>	<u>155,770</u>	<u>124,607</u>	<u>5,230</u>	<u>5,606</u>	<u>124,231</u>	5.00-20.00
Utility plant in service	1,890,574	24,283	11,692	1,903,165	1,110,500	48,492	8,398	1,150,594	
Construction work in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total utility plant	<u>\$ 1,890,574</u>	<u>\$ 24,283</u>	<u>\$ 11,692</u>	<u>\$ 1,903,165</u>	<u>\$ 1,110,500</u>	<u>\$ 48,492</u>	<u>\$ 8,398</u>	<u>\$ 1,150,594</u>	

AURELIA MUNICIPAL ELECTRIC UTILITY
COMMENTS ON BALANCE SHEET
DECEMBER 31, 2008

<u>UTILITY PLANT</u> - Cost	\$ 1,903,165	
- Accumulated depreciation and amortization	1,150,594	\$ 752,571

Details of the Utility plant are shown in the preceding schedule.

<u>MEMBERSHIP</u>		\$ 100
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This account represents the cost of membership in the Western Iowa Municipal Electric Cooperative Association.

<u>DEFERRED PATRONAGE REFUND RECEIVABLE</u>		\$ 173,106
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The following is a summary of the deferred patronage due from WIMECA:

<u>Year</u>	<u>Amount</u>
2001	\$ 760
2002	27,595
2003	23,044
2004	39,542
2005	20,830
2006	40,537
2007	20,798
	\$ 173,106

<u>CASH AND CASH EQUIVALENTS</u>		\$ 58,454
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This balance consists of a NOW account bearing interest at .50%.

<u>TEMPORARY CASH INVESTMENTS</u>		\$ 450,000
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This consists of the following:

	<u>Interest Rate</u>	<u>Purchase Date</u>	<u>Date Due</u>	<u>Cost and Book Value</u>	<u>Maturity Value</u>
First Trust and Savings Bank, Aurelia, Iowa					
Certificate of deposit	2.90%	8-25-08	2-23-09	\$ 100,000	\$ 100,000
Certificate of deposit	2.70%	9-18-08	3-19-09	75,000	75,000
Certificate of deposit	3.30%	10-16-08	4-16-09	50,000	50,000
Heritage Bank, Aurelia, Iowa					
Certificate of deposit	2.00%	12-22-08	3-22-09	125,000	125,000
Certificate of deposit	2.20%	11-13-08	5-14-09	100,000	100,000
				\$ 450,000	\$ 450,000

AURELIA MUNICIPAL ELECTRIC UTILITY
COMMENTS ON BALANCE SHEET
DECEMBER 31, 2008

INVENTORY \$ 21,745

The inventory is based on a physical count taken as of December 31, 2008 and consists of the following:

Wire	\$ 19,715
Innerduct and conduit	<u>2,030</u>
	<u>\$ 21,745</u>

ACCOUNTS RECEIVABLE \$ 99,201

Current accounts receivable	\$ 96,598
Past due accounts	<u>2,603</u>
Balance, December 31, 2008	<u>\$ 99,201</u>

ACCRUED INTEREST RECEIVABLE \$ 2,289

This consists of interest accrued at December 31, 2008 on investments.

PREPAID INSURANCE \$ 3,434

This consists of the unexpired portion of insurance premiums paid.

NET ASSETS \$ 1,486,711

Following is a summary of the changes in this account during 2008:

Balance, January 1, 2008	\$ 1,708,195
Change in net assets	28,516
Residual equity transfer to City	<u>(250,000)</u>
Balance, December 31, 2008	<u>\$ 1,486,711</u>

ACCOUNTS PAYABLE \$ 37,532

This balance consists of the following:

WIMECA - December 2008 purchased power	\$ 33,205
Utility customers - Electric heat rebates	1,500
Various, each less than \$1,000	<u>2,827</u>
	<u>\$ 37,532</u>

CONSUMERS' DEPOSITS \$ 3,725

The subsidiary records were reconciled with the control amount at December 31, 2008. The amount of the deposit varies and is based on one month's estimated usage.

AURELIA MUNICIPAL ELECTRIC UTILITY
COMMENTS ON BALANCE SHEET
DECEMBER 31, 2008

OTHER CURRENT AND ACCRUED LIABILITIES

\$ 32,932

This balance consists of the following:

Accrued payroll and vacations	\$ 4,775
Water charges due city	10,774
Sanitary landfill fees due city	5,864
Sewer rental fees due city	9,586
Storm water fees due City	462
State sales tax	<u>1,471</u>
	<u>\$ 32,932</u>

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Aurelia Municipal Electric Utility
Aurelia, Iowa

We have audited the accompanying financial statements of Aurelia Municipal Electric Utility, as of and for the year ended December 31, 2008, and have issued our report thereon dated August 19, 2009. Our report expressed a qualified opinion on the financial statements since we were unable to satisfy ourselves as to the beginning balances of accounts receivable, inventory, and accounts payable. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Utility's financial statements that is more than inconsequential will not be prevented or detected by the Utility's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Utility's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A), (B), and (C) are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2008, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit the responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Aurelia, Iowa, and other parties to whom Aurelia Municipal Electric Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

August 19, 2009



AURELIA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2008

Part I - Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by either of two individuals.

Recommendation – We realized that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – Office staff will continually cross-train and review procedures. The Electric Board closely monitors operating procedures to obtain the maximum internal control possible.

Conclusion – Response accepted.

- (B) Electronic Data Processing Systems - During our review of internal control, the existing control activities in the Utility's computer based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the Utility's computer based systems were noted:

The Utility does not have written policies for:

- password privacy and confidentiality,
- requiring password changes because software does not require the user to change logins/passwords periodically,
- requiring that users log off the system if not being used for extended periods of time,
- personal use of computer equipment and software.

Also, the Utility does not have a written disaster recovery plan.

Recommendation - The Utility should develop written policies addressing the above items in order to improve the Utility's control over computer based systems. A written disaster recovery plan should be developed and back-up tapes should be stored off site in a fire proof vault or safe.

Response – We recently began using an on-line back-up program – IDrive, which was recommended by our software company. We back up to this each night and also back up to tapes at our office once a month. The City Clerk will implement policies to ensure software installed is monitored and licensed to the City, to have each user have a password and change these passwords periodically, to address personal use of computer equipment, and we will prepare a disaster recovery plan.

Conclusion – Response accepted.

AURELIA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2008

Part I - Findings Related to the Financial Statements: (Continued)

SIGNIFICANT DEFICIENCIES: (Continued)

- (C) Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for Utility board members to make management decisions, reporting financial data reliably in accordance with U.S. generally accepted accounting principles (GAAP) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable GAAP financial statements.

Response – Office staff will continually obtain additional accounting knowledge by using the support system of our software company and also attend any programs offered in the area to increase our ability to be responsible for reliable financial statements.

Conclusion – Response accepted.

Part II - Other Findings Related to Statutory Reporting:

- (1) Budget – Utility expenses during the year ended December 31, 2008, did not exceed the amounts budgeted.
- (2) Questionable Expenditures – We noted no expenditures which may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense – No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- (4) Business Transactions – We noted the following business transactions between the Utility and Utility officials:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Craig Ballantyne, Trustee Owner of C.A.R.S. Repair Shop	Parts and supplies	\$108

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions do not appear to represent a conflict of interest since the total was less than \$2,500 during the year.

- (5) Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

AURELIA MUNICIPAL ELECTRIC UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2008

Part II - Other Findings Related to Statutory Reporting: (Continued)

- (6) Trustee Minutes – No transactions were found that we believe should have been approved in the Trustee minutes but were not.

- (7) Deposits and Investments - We noted no instances of non-compliance with the deposit and the investment provisions of Chapter 12B and 12C of the Code of Iowa.